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	DEFENSE	- COL. JOHN STANFORD
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	NSC	- MR. ROBERT KIMMITT
	CEA	- MR. WILLIAM A. NISKANEN
	OCA	- MR. THOMAS GIBSON

Subject IG-IEP Paper on Food Assistance for Egypt

Deputy Assistant Secretary Cornell will chair a meeting of the IG-IEP on Thursday, November 10. At the request of the SIG-IEP, USTR in conjunction with other agencies, drafted the attached paper examining ways of providing food assistance to Egypt. Our objective will be to weigh the options contained in the paper and to select the most feasible options for SIG-IEP review.

The meeting will be held at 2:~~00~~45 p.m., in Room 4426, Main Treasury Building. Attendance will be principal, plus one.

for David E. Pickford
Executive Secretary

Attachment

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ASSISTED FOOD SHIPMENTS TO EGYPT

Introduction

The SIG asked that a task force at the staff level look into the possibility of providing economic assistance to Egypt through additional food shipments. Among the major products imported by Egypt, which could be provided by the United States, are wheat, wheat flour, dairy products, and poultry. Egyptian imports of wheat flour and dairy products are supplied almost entirely by the European Community (EC). The EC also supplies wheat and poultry to Egypt but shares the Egyptian market for these commodities with the United States and Australia in the case of wheat, and Brazil and the United States in the case of poultry.

This paper will examine some of the possibilities for food assistance explored by the staff. Some have already been reviewed by various interagency committees and some are still under review. Several would involve sizeable expenditures and some would require a change in current policy. They are included with the presumption that if there is sufficient will to take action to aid Egypt, the necessary funding or policy shifts will be made.

The proposals can roughly be divided into two categories: food aid and export subsidies, including credit.

FOOD AID

1. Additional P.L. 480. Either through a Congressionally-authorized increase in the P.L. 480 budget or by reallocation among countries. (The USG is committed to give Egypt $250 million of wheat and wheat flour under P.L. 480 annually. More than a third of this value will be flour.)

Pros

-- Would enable U.S. to make additional commodities available to Egypt at very low cost to them.

-- Would enable the U.S. to sell more wheat flour to the Egyptian market at the expense of subsidized sales from the EC.

Con

-- A larger authorization for P.L. 480 would be inconsistent with the Administration's efforts to control the deficit. Also, Congress might be reluctant to agree to a larger P.L. 480 budget, interpreting it as giving more to foreign governments when we have problems at home. Pending before Congress is legislation to specifically limit the percentage of Title I/III to any single country. The current allocation for Egypt exceeds the proposed cap. This legislation is characterized as the "anti-Egypt" amendment; its clear intent is to force the current Egypt level down.

-- According to a USDA study, other countries have greater wheat needs. Data is publicly available demonstrating that per capita wheat consumption in Egypt is high by international and nutritional standards. Excessive subsidies on food and resultant extensive availability of cheap bread in Egypt are well documented. Additional food aid may excerbate this situation and cause more criticism.

-- Little expectation Congress would support.

2. Earmark part of the $750 million from the Economic Support Fund (ESF) for purchases of flour or other agricultural commodities under the Commodity Import Program (CIP), which provides grants. CIP has been used for corn.

Pro

-- Would enable the U.S. to sell more flour, poultry, etc., at the expense of subsidized exports from Brazil or the EC.

-- Pipeline for utilization of ESF monies is clogged. Utilization of a portion of the monies for immediate consumption would result in faster distribution of these monies.

Con

-- Monies would be taken from other projects which are expected to be of greater benefit to Egypt's long-term economic development and used for immediate consumption.

-- Would blunt our efforts to get Egypt to straighten out its domestic food subsidies in order to reduce its deficit and encourage its own agricultural production.

3. Donate Dairy Products to Egypt. The United States could use Section 416 authority to donate surplus dairy products to the Government of Egypt or a recognized charitable organization for distribution to needy people in Egypt.

Pros

-- Would help Egypt meet food import needs at little or no cost to the Egyptian Government.

-- Would reduce surplus dairy stocks in the U.S.

Cons

-- Could interfere with normal commercial sales including future U.S. sales and might be difficult to defend as consistent with U.S. obligations under the FAO Rules on Surplus Disposal, particularly in the wake of our recent dairy sale to Egypt.

-- Even if categorized as food aid, such a transaction might be seen as a hostile act by the EC.

-- Egypt has not expressed an interest in the Section 416 program nor in dairy donations.

4. The currently allocated funding for P.L. 480 wheat could be used instead for flour, and wheat could be offered under GSM-102 or blended credit (GSM 5/GSM 102). The current P.L. 480 wheat allocation is $160 million, to cover approximately 958,000 metric tons; if this funding is instead used for flour, it would cover 693,000 tons of additional flour which would displace flour that otherwise would be purchased from the EC. The 958,000 tons of wheat would then need to be offset by an additional GSM-102 funding allocation of $160 million beyond that now planned, since Egypt is a high risk country or blended credit could be used. In return, Egypt would agree to commit to using a portion of ESF monies to purchase poultry.

(See pros and cons under Option 2 regarding ESF part of this proposal.)

Pros

-- Would cover more than half of Egypt's wheat flour needs and provide significant benefits to the U.S. wheat flour industry.

-- Would displace an equivalent amount of EC flour exports and enable the U.S. to maintain or increase overall level of wheat exports if additional GSM-102 and/or GSM 5 could be made available to Egypt.

Cons

-- Probably would result in some net reduction in total quantity of U.S. wheat/wheat flour exports as compared with using an additional $160 million of GSM-102 in some other country.

-- Would reduce the total volume of wheat/wheat flour which can be moved with the FY 1984 PL 480 funding, because of substantially higher export volume of wheat moved as flour.

-- Might be difficult to defend a consistent with our obligations under the FAO Rules of Surplus Disposal (assuming commercial imports of flour by Egypt decline). However, last year's subsidized sale of U.S. wheat flour to Egypt will cause the 5-year average of imports by country to change in favor of the United States, thereby posing less of a problem with UMRs.

DIRECT EXPORT SUBSIDIES

1. Implement USDA's proposal to sell 50,000 to 60,000 MT of whole broilers to the Middle East and North Africa (or some amended version designed to ensure that Egypt was the major beneficiary of the program). CCC surplus dairy products would be exported to make U.S. poultry competitive with subsidized poultry from the EC and Brazil. This proposal was considered by the TPC on October 25 in the context of U.S.-EC agricultural subsidy problems. It received no support beause, among other things, it would impact principally on Brazil's exports. The EC is a relatively small supplier of poultry to Egypt.

Pros

-- Egypt needs and regularly imports poultry meat and could utilize certain quantities of dairy products. (However, U.S. poultry prices would not likely be much lower than the EC's or Brazil's.)

-- Would assist U.S. poultry exporters and reduce CCC dairy stocks.

-- Enable U.S. to capture markets at the expense of subsidized competition.

Cons

-- New Zealand and possibly Canada would probably react unfavorably to the sale of dairy products.

-- Could have a spillover effect on other U.S.-EC issues and could possibly provoke retaliatory actions by the EC.

-- Could stimulate other commodity sectors to seek similar arrangements using surplus dairy products.

-- Dairy sale could violate U.S. international obligations under International Dairy Arrangement or GATT Subsidies Code.

2. Arrange for additional wheat flour sale, along the lines of that made last year, by compensating either U.S. flour millers or Egypt directly with CCC wheat.

Pros

-- Would clearly add to total U.S. wheat/wheat flour export volume.

-- Would displace subsidized EC sales of wheat flour and presumably strengthen U.S. negotiating leverage.

-- Would provide a commodity desired by Egypt at a low price.

-- Egypt has asked for additional wheat flour.

Cons

-- Could not be undertaken until it is certain that there will be wheat in CCC ownership (not before next May). (According to USDA projections, useable CCC wheat stocks at the end of the next growing season will not exceed 1/2 million tons.)

-- Could have a calamitous effect on U.S.-EC relations and be used as a pretext for EC retaliatory action.

-- Could complicate our efforts to defend in the GATT last year's subsidized sale to Egypt. (If, however, the sale amounted to significantly less than 1 million tons agreed to in January 1983, these last two considerations would be less significant.)

-- The U.S. milling industry would start to consider subsidized wheat flour sales an entitlement.

EXPORT CREDITS

1. Use the entire amount of funds available for blended credit to cover U.S. exports to Egypt. Assuming $125 million is available for GSM-5, this would cover $625 million of commodity exports to Egypt; this would cover roughly 2.3 mmt. of wheat and approximately 1.5 mmt. of corn which would meet virtually all of Egypt's import needs for these commodities beyond that obtained under P.L 480 and beyond the wheat shipped under the long-term agremeent with Australia.

Pros

-- Would displace 1 to 2 MMT of EC grain exports to Egypt and probably reduce total EC grain exports for the year by 300,000 to 500,000 tons.

-- Would provide a significant BOP advantage to Egypt (even though the subsidy would amount to only 2-3 percent) because repayment would not begin for one year.

Cons

-- Blended credit could be used in other markets of greater benefit to U.S. exporters.

-- Could adversely affect U.S.-EC relations.

-- If displace normal EC shipments, could violate GATT Subsidy Code obligations.

-- Congress could see this as another Economic Support Fund.

2. Provide interest-free direct credits under CCC GSM-5. We are now using interest-free credits in combination with loan guarantees under the blended credit program.

Pros

-- Would provide agricultural commodities to Egypt on an interest-free basis.

-- Would enable additional U.S. sales at the expense of subsidizing exporters.

Cons

-- Would rapidly use up funds available for blended credit in a relatively wasteful manner -- i.e., the same funds could be used in the blended credit program to secure a much greater increase in U.S. exports.

-- Could violate GATT Subsidy Code obligations.

3. Expand GSM 102 credit guarantees and/or Eximbank financing for agricultural exports to Egypt.

Pro

-- Could possibly provide modest benefits to Egypt.

-- Three-year term provides longer repayment period.

Cons

-- Far less attractive to the Egyptians than the other alternatives outlined above -- so much so that they might not even have any interest in such a proposal.

-- Would not enable us to compete with subsidized exporters.

4. Reactivate GSM intermediate (10-year) financing. Under the program, the local currency the Egyptians receive from the sale of the wheat flour must go to finance storage facilities and other projects that will facilitate importing.

Pro

-- Would open another source of financing.

Cons

-- The program would take extensive work to reactivate.

-- It is currently Administration policy not to use this program.

BACKGROUND

Wheat and Wheat Flour to Egypt During FY 83:

1. In January 1983, the Secretary of Agriculture announced agreement to sell 1 million tons (plus or minus 5 percent) of U.S. wheat flour for shipment to Egypt over a 12 to 14 month period beginning March 1, 1983. The agreed C&F selling price was $155 per metric ton. The CCC provided wheat from its stocks to millers willing to accept the smallest amount of wheat to export wheat flour to Egypt at this price. GSM-102 guaranteed $123.8 million of the financing at commercial rates for 3 years (98 percent of the principal and 8 percent of applicable bank interest charges).

2. The USG provided blended credits for another $55 million of wheat, 500 thousand metric tons (assuming a price of $130 per ton). (Blended credit on all products to Egypt was $167.5 million in FY 83.)

3. Under our P.L. 480 aid program, we sold Egypt $250 million of wheat and wheat flour, of which $89 million was flour. This represents 1.46 million tons of wheat and flour on a grain equivalent basis.

Planned Wheat and Wheat Flour to Egypt for FY 84:

During FY 84, the USG also expects to provide Egypt with $250 million in P.L. 480 for wheat and wheat flour, of which $90 million will be flour. USDA estimates that Egypt will be able to use the P.L. 480 to import 1.492 million tons of wheat and wheat flour on a grain equivalent basis. The USG has made no commitments yet on blended credits and GSM 102 to Egypt.

Dairy Sale of Egypt During FY 83

In August the USG, through the Commodity Credit Corporation, sold 28,000 metric tons of dairy products from its stocks to the Government of Egypt. The sale, which had a value of about $42.2 million, consisted of 18,000 MT of butter and 6,000 MT of cheddar cheese and 4,000 MT of processed cheese.

The transaction was made at world market prices and will be paid for in Egyptian pounds for use by the American Embassy in Cairo for its official expenditures.